

Performance Audit Report

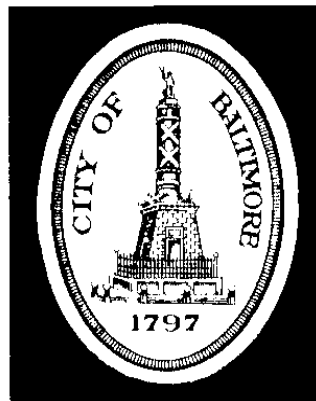
CITY OF BALTIMORE'S INDEMNITY MEDICAL PROGRAMS

CONTRACT BP-18597

WITH CAREFIRST BLUECROSS BLUESHIELD

CALENDAR YEAR 2000

SEPTEMBER 2001



City of Baltimore
Department of Audits

CITY OF BALTIMORE

MARTIN O'MALLEY, Mayor



DEPARTMENT OF AUDITS

YOVONDA D. BROOKS, CPA
City Auditor

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September 26, 2001

Honorable Joan M. Pratt, Comptroller
And Other Members of the Board of Estimates
City of Baltimore

We conducted an audit of certain aspects of the City's Contract BP-18597 with CareFirst of Maryland, Inc. d/b/a CareFirst BlueCross and BlueShield of Maryland (CareFirst) for the City's Indemnity Medical Programs (Traditional, Preferred Provider Network, Medicare Supplemental, and Stand-Alone Major Medical) for calendar year 2000. The purpose of our audit was to determine whether the year-end Retrospective Settlement Report was supported by adequate documentation, whether claims paid by CareFirst were appropriate and allowable under the contract, were made only for eligible claimants and were supported by adequate documentation, and whether CareFirst fulfilled its contractual responsibility to audit paid Maryland hospital claims greater than \$10,000.

As a result of our audit, we found that CareFirst paid claims, totaling \$95,012, for services provided to one claimant after the health insurance coverage terminated. CareFirst informed us that it has adjusted the applicable claims and initiated the process to recoup the monies from the service providers. The adjusted paid claims will be reflected on the Retrospective Settlement Report for calendar year 2001. CareFirst also paid claims, totaling \$2,053, for services provided to two other claimants after the health insurance termination dates. The City's Employee Benefits Division and CareFirst are currently pursuing the resolution of the claims paid for those two claimants. We met with representatives from the City's Employee Benefits Division and CareFirst to discuss the implementation of procedures for utilizing the proper dates for terminating a subscriber's health insurance coverage.

Respectfully submitted,

Yovonda D. Brooks, CPA
City Auditor

Background Information

On August 27, 1997, the Board of Estimates (Board) awarded Contract BP-18597 for the City's Indemnity Medical Programs (Traditional, Preferred Provider Network, Medical Supplemental, and Stand-Alone Major Medical) to BlueCross and BlueShield of Maryland, Inc., later known as CareFirst of Maryland, Inc., d/b/a CareFirst BlueCross and BlueShield of Maryland (CareFirst). The initial contract covered a two-year period from January 1, 1998 through December 31, 1999 and provided for three optional one-year renewals. On April 5, 2000, the Board approved the renewal for calendar year 2000, for an estimated cost of \$127,000,000. The final costs are based on actual claims paid during the year plus certain fixed costs.

CareFirst is reimbursed for claims paid on behalf of the City and is paid for administrative and other service fees (referred to by CareFirst as fixed costs). CareFirst submits monthly invoices to the City for subscription charges (premiums), based on the contractual amounts for subscribers according to the applicable health plan and insurance group. At the end of the year, CareFirst prepares an annual Retrospective Settlement Report that compares monthly premiums received from the City during the contract year to actual claims paid by CareFirst on behalf of the City and related fixed costs reported by CareFirst. The difference between the total monthly premiums paid by the City and the reported expenditures (actual claims paid and related fixed costs) is either paid to CareFirst or refunded to the City. The following schedule summarizes the year-end Retrospective Settlement Report for calendar year 2000.

SUMMARY OF RETROSPECTIVE SETTLEMENT REPORT						
CALENDAR YEAR 2000						
Adjusted Monthly Subscription Charges - Premiums						\$ 123,399,701
Less:						
Claims Paid						110,224,090
Fixed Costs						9,054,840
Total Expenditures						119,278,930
Refund to the City						\$ 4,120,771

As shown on the above schedule, the adjusted monthly premiums paid to CareFirst totaled \$123,399,701. After deducting \$119,278,930 (\$110,224,090 paid claims and \$9,054,840 fixed costs), the City received a refund of \$4,120,771. According to the Retrospective Settlement Report for calendar year 2000, the refunds to the City since the inception of the retrospective settlement arrangement are as follows:

SUMMARY OF REFUNDS		
Year		Refund
1995		\$25,000,000
1996		7,400,000
1997		12,600,000
1998		4,500,000
1999		3,400,000
2000		4,100,000
Total		<u>\$57,000,000</u>

The \$9,054,840 of fixed costs during calendar year 2000 consists primarily of CareFirst Operating Charges and Network Access Fees. The Operating Charges are charges for monthly administrative services performed by CareFirst and are based on contractual amounts for subscribers according to the applicable health plan and insurance group. The Network Access Fee is a charge to participate in CareFirst's network of service providers who have agreed to provide services at a discount. The monthly Network Access Fee for each subscriber in the participating provider network (Traditional Plan) is \$3.50 and for each subscriber in the preferred provider network is \$4.50.

According to the Administrative Services Agreement for Contract BP-18597, CareFirst is required to review Maryland hospital paid claims with charges exceeding \$10,000 to verify the accuracy of these billings. If CareFirst's audits result in a reduction to paid claims (savings to the City), CareFirst will charge an hourly rate of \$75 for actual audit time incurred or the amount of the savings, whichever is less. The hospital charge audit fees are included as a fixed cost on the Retrospective Settlement Report. During calendar year 2000, CareFirst audited 44 Maryland hospital paid claims and reported savings of \$215,450. The charges for those audits totaled \$5,430.

Audit Scope, Objectives and Methodology

We conducted an audit of certain aspects of the City's Contract BP-18597 with CareFirst of Maryland, Inc. d/b/a CareFirst BlueCross and BlueShield of Maryland (CareFirst) for the City's Indemnity Medical Programs (Traditional, Preferred Provider Network, Medicare Supplemental, and Stand-Alone Major Medical) for calendar year 2000. Specifically, we focused on the claims paid during calendar year 2000 and the applicable year-end Retrospective Settlement Report. Our audit was conducted in accordance with generally accepted *Government Auditing Standards* related to performance audits, issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

The objectives of our audit were to determine whether the amounts shown on the year-end Retrospective Settlement Report were supported by adequate documentation, whether claims paid by CareFirst were appropriate and allowable under the contract, were made only for eligible claimants and were supported by adequate documentation, and whether CareFirst fulfilled its contractual responsibility to audit paid Maryland hospital claims greater than \$10,000.

To accomplish our objectives, we reviewed certain key provisions of Contract BP-18597 and conducted interviews with officials from the City's Department of Human Resources – Employee Benefits Division, the City's Bureau of Accounting and Payroll Services, and CareFirst to obtain a general understanding of the procedures for paying the monthly premiums and determining the year-end retrospective settlement amounts. We also reviewed applicable procedures, forms, documents and reports used to process paid claims and to terminate health insurance coverage. We also used computer-assisted auditing techniques to identify claims for testing. Our audit focused, primarily, on claims greater than \$10,000. Additionally, we reviewed, tested and performed verification and reconciliation procedures on data provided by CareFirst and the City.

The procedures that we performed and any related audit findings and resolutions are described below. The response of the City's Employee Benefits Division is included as an appendix to this report.

Procedures Performed, Related Audit Findings and Resolution

Review of Year-end Retrospective Settlement Report

We reviewed the procedures for paying the monthly premiums and determining the year-end retrospective settlement amounts. We also obtained and reviewed the Retrospective Settlement Report for calendar year 2000 and verified the reported amounts for premiums paid, claims paid, the resulting refund to the City, and significant fixed costs to data and supporting documentation maintained by CareFirst and the City. Based on our audit, the amounts included on the year-end Retrospective Settlement Report were supported by adequate documentation, and we reconciled the amounts to applicable data maintained by CareFirst and the City.

Tests to Determine the Allowability of Reported Claims

We obtained a computer-generated tape from CareFirst of the claims paid during calendar year 2000 and verified the total paid claims amount on the tape to the amount reported on the Retrospective Settlement Report. We judgmentally selected 120 transactions (primarily those transactions greater than \$10,000) and performed tests to determine whether the claimants were eligible to receive the services provided. We also selected 100 of those transactions to determine whether the paid claims were appropriate and allowable under the contract and whether 25 of those transactions were supported by adequate documentation. Based on our audit tests, the claims paid by CareFirst were appropriate and allowable under the contract, were made only for eligible claimants, and were supported by adequate documentation except as noted in the following audit finding.

Audit Finding

CareFirst paid claims, totaling \$95,012, for services provided to one claimant after the health insurance coverage terminated. Officials from CareFirst stated that because CareFirst did not receive the City's Final Enrollment Report (normally used as a basis to terminate health insurance coverage), it used another report from the City (Deduction Cutoffs Report) that contained an employment termination date. CareFirst's policy is to use the City's Deduction Cutoffs Report as a basis for terminating health insurance coverage when a Final Enrollment Report is not received from the City.

In addition to the \$95,012, CareFirst paid claims, totaling \$2,053, for services provided to two additional claimants after the health insurance termination date shown on the Final Enrollment Report. (The draft of this audit report, submitted to the City's Employee Benefits Division and CareFirst for comments and responses, originally included four questioned claims, totaling \$2,269. Two of those disputed claims were subsequently resolved.)

Audit Resolution

We met with representatives of the City's Employee Benefits Division and CareFirst to discuss the resolution of the questioned claims noted above and to discuss the procedures for terminating a subscriber's health insurance coverage. We also discussed whether the City should continue sending the Deduction Cutoffs Report to CareFirst. CareFirst informed us that it has adjusted the applicable claims for the \$95,012 and initiated the process to recoup the monies from the service providers. The adjusted paid claims will be reflected on the Retrospective Settlement Report for calendar year 2001. The City's Employee Benefits Division and CareFirst are currently pursuing the resolution of the paid claims of \$2,053 for the two additional claimants cited above. CareFirst and the City's Employee Benefits Division discussed using the termination date on the Final Enrollment Report for future terminations of health insurance coverage. We concur with that methodology. The City's Employee Benefits Division is in the process of drafting standard operating procedures regarding terminations of health insurance coverage and will forward the draft of those procedures to CareFirst for review and concurrence before implementation.

CareFirst's Audits of Paid Maryland Hospital Claims Exceeding \$10,000

We reviewed the procedures used by CareFirst to select and test paid Maryland hospital claims exceeding \$10,000. We also obtained a schedule of the claims audited by CareFirst during calendar year 2000, verified the clerical accuracy of the amounts included in the schedule and traced 10 of the savings amounts reported to the applicable CareFirst audit workpapers. Furthermore, we verified that CareFirst's paid claims system was adjusted accordingly to reflect the reported savings that we tested. We have no findings in this area.

Appendix I

The City's Employee Benefits Division's Response

to the


Performance Audit of

City of Baltimore's Indemnity Medical Programs

Contract BP-18597

With CareFirst BlueCross BlueShield

Calendar Year 2000

FROM	NAME & TITLE	Edward R. Henderson, Chief of Employee Benefits	CITY of BALTIMORE MEMO	
	AGENCY NAME & ADDRESS	Department of Human Resources 201 E. Baltimore Street, Suite 500		
	SUBJECT	Response to Discussion Draft - Audit of Contract BP-18597 with Carefirst Blue Cross/Blue Shield		

TO

DATE: September 10, 2001

Ms. Yovonda D. Brooks, City Auditor
Department Of Audits
City Hall, Room 321

We have reviewed the findings of the Discussion Draft Audit Report on the City's contract with CareFirst Blue Cross/Blue Shield and we concur with its findings. Our office met with representatives of the Department of Audits and CareFirst Blue Cross/Blue Shield on August 23, 2001 to discuss procedures for the termination of subscriber's health insurance.

We agree the Final Enrollment Report generated by the Employees Benefits Division should be the basis for the termination of health insurance and not the Deductions Cutoffs Report generated by Central Payroll. Our office has implemented follow-up procedures to insure The Final Enrollment Report is received and processed by CareFirst and a Standard Operating Procedures Manual is currently being developed.

We are currently working with CareFirst Blue Cross/Blue Shield to recoup dollars paid on the four other claims.